CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

13TH DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

AUDIT REPORT #09-010
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

13th DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Pamela Vallerga	Auditor

AUDIT REPORT NUMBER

#09-010

13th DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

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Mr. Charley Mathews Jr., President
Board of Directors
13th DAA, Yuba-Sutter Fair
442 Franklin Avenue
Yuba City, California 95991

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 13th District Agricultural Association (DAA), Yuba-Sutter Fair, Yuba City, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 13th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 13th DAA, Yuba-Sutter Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 13th DAA, Yuba-Sutter Fair has not presented the Management’s Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-010, on the 13th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 13th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

For Ron Shackelford, CPA
Chief, Audit Office

March 27, 2009

13TH DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash	111-117	$ 443,302	$ 488,489
Accounts Receivable, Net	131-133	16,198	12,758
Deferred Charges	143	2,236	-
Construction in Progress	190	9,308	-
Land	191	92,728	92,728
Buildings and Improvements, Net	192	1,034,202	1,086,613
Equipment, Net	193	14,425	14,876
TOTAL ASSETS		**1,612,398**	**1,695,464**
LIABILITIES AND NET RESOURCES			
Liabilities and Other Credits			
Accounts Payable	212	13,010	13,449
Current Portion of Long Term Debt	212.5	6,274	5,939
Taxes Payable	221-226	110	200
Deferred Income	228	14,479	13,847
Guaranteed Deposits	241	4,180	5,405
Compensated Absences Liability	245	47,742	42,638
Long Term Debt	250	23,584	29,859
Total Liabilities and Other Credits		**109,379**	**111,338**
Net Resources			
Reserve for Junior Livestock Auction	251	68,021	58,149
Net Resources - Operations	291	307,920	367,559
Net Resources - Capital Assets, net related debt	291.1	1,127,078	1,158,419
Total Net Resources Available		**1,503,019**	**1,584,127**
TOTAL LIABILITIES AND NET RESOURCES		**$ 1,612,398**	**$ 1,695,464**

13TH DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	$ 124,000	$ 124,000
Capital Project Funds	319	-	35,000
Other Revenue	340	38,546	25,000
Admissions	410	213,620	218,458
Commercial Space	415	29,026	27,603
Carnival	421	109,571	115,315
Concessions	422	61,131	54,335
Exhibits	430	12,700	13,283
Attractions - Fairtime	460	42,923	42,948
Miscellaneous Fair	470	89,855	93,446
JLA - Revenue	476	48,025	46,231
Non-Fair Revenue	480	256,579	318,461
Prior Year Adjustment	490	2,507	(240)
Other Revenue	495	25,070	22,956
Total Revenue		**1,053,553**	**1,136,796**
EXPENSES			
Administration	500	347,821	317,434
Maintenance and Operations	520	326,362	319,359
Publicity	540	36,903	32,162
Attendance	560	74,034	72,489
Miscellaneous Fair	570	33,248	54,795
JLA - Expense	576	38,153	34,641
Premiums	580	19,864	18,692
Exhibits	630	30,235	29,029
Attractions - Fairtime	660	139,296	147,918
Equipment	723	-	-
Prior Year Adjustments	800	(2,051)	(958)
Cash Over/Short from Ticket Sales	850	594	633
Depreciation Expense	900	59,991	58,565
Other Operating Expense	945	30,211	25,000
Total Expenses		**1,134,661**	**1,109,760**
RESOURCES			
Net Change - Income / (Loss)		(81,108)	27,037
Resources Available, January 1		1,584,127	1,557,090
Resources Available, December 31		**$ 1,503,019**	**$ 1,584,127**

13TH DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	$ (81,108)	$ 27,037
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(3,440)	(1,261)
(Increase) Decrease in Deferred Charges	(2,236)	8,070
Increase (Decrease) in Accounts Payable	(103)	707
Increase (Decrease) in Payroll Taxes and Other Liabilities	(90)	(1,646)
Increase (Decrease) in Deferred Income	632	(39,109)
Increase (Decrease) in Compensated Absence Liability	5,104	1,681
Increase (Decrease) in Guarantee Deposits	(1,225)	(5,276)
Total Adjustments	(1,359)	(36,834)
Net Cash Provided (Used) by Operating Activities	**(82,467)**	**(9,797)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction In Progress	(9,308)	12,466
(Increase) Decrease in Land	-	-
(Increase) Decrease in Buildings & Improvements	52,411	(3,219)
(Increase) Decrease in Equipment	451	6,154
Net Cash Provided (Used) by Investing Activities	**43,554**	**15,400**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	(6,275)	(5,939)
Net Cash Provided (Used) by Financing Activities	**(6,275)**	**(5,939)**
NET INCREASE (DECREASE) IN CASH	**(45,187)**	**(336)**
Cash at Beginning of Year	488,489	488,825
CASH AT END OF YEAR	**$ 443,302**	**$ 488,489**

See accompanying independent auditor's report and notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 13th District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Yuba-Sutter Fair each year in Yuba City, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues,* ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures,* (GASB Statement No. 50"). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* ("GASB Statement No. 25"), and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* ("GASB Statement No. 27") to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* ("GASB Statement No. 43") and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash	$ 200	$ 200
Cash in Bank - Operating	10,678	57,283
Cash in Bank - JLA	56,466	46,559
Cash in Bank - Investment & Savings	375,958	384,447
Total Cash and Cash Equivalents	$ 443,302	$ 488,489

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable	$ 16,198	$ 12,758
Allowance for Doubtful Accounts	-	-
Accounts Receivable - Net	$ 16,198	$ 12,758

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Building & Improvements	$ 2,596,809	$ 2,596,809
Less: Accumulated Depreciation	(1,562,607)	(1,510,197)
Building & Improvements - Net	$ 1,034,202	$ 1,086,613
Equipment	$ 107,027	$ 99,898
Less: Accumulated Depreciation	(92,602)	(85,023)
Equipment - Net	$ 14,425	$ 14,876

NOTE 6 **LONG-TERM DEBT**

In 2006, the 13th DAA signed a promissory note to California Fair Services Authority (CFSA) to finance the roof repairs of the Fair's building. The terms of the agreement are as follows:

CFSA Palmer Hall Loan:

Loan Amount	$ 45,000
First Payment Date	March, 2006
Payment Amount	$ 7,760
Duration of Loan	7 years
Interest Rate	5.5%
Total Outstanding at 12/31/08	$ 29,859
Current Portion at 12/31/08	$ 6,274
Long-Term Portion at 12/31/08	$ 23,585

NOTE 7 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

NOTE 9 **LITIGATION**

The DAA is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations, the DAA's management believes none of which will have a material effect on its financial position or results of operations.

13th DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 13th DAA Board of Directors
1	Chief Executive Officer, 13th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

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13th DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

MANAGEMENT REPORT #09-010

YEAR ENDED DECEMBER 31, 2008

13th DISTRICT AGRICULTURAL ASSOCIATION
YUBA-SUTTER FAIR
YUBA CITY, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Pamela Vallerga	Auditor

MANAGEMENT REPORT NUMBER
#09-010

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Mr. Charley Mathews Jr., President
Board of Directors
13th DAA, Yuba-Sutter Fair
442 Franklin Avenue
Yuba City, California 95991

In planning and performing our audit of the financial statements of the 13th District Agricultural Association (DAA), Yuba-Sutter Fair, Yuba City, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Yuba-Sutter Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 13th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 13th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 13th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 13th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 13th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 13th DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: compensated leave liability, and cash accounting. We have provided three recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 13th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

COMPENSATED LEAVE LIABILITY

The Fair did not always adequately maintain its employee leave balance records. Employee leave records were not always adjusted to account for Compensated Time Off (CTO) or vacation hours shown on employee timecards. For example, an employee's timecard showed 32 hours of CTO taken in the same month a pay-out for 100 CTO hours occurred, yet, due to clerical error, the employee's leave balance record showed the monthly balance reduced by 100 hours, rather than the full 132 hours that should have been shown. Also, the Fair accounted for the pay-out of the CTO hours as part of the compensated absence expense for the year rather than a reduction in the leave liability that had been accrued for those hours. Additionally, hours owed to employees for annual personal holidays were not tracked or reflected in the leave balances. The variance resulting from these practices was an overstatement of Account #245, Compensated Leave Liability, by $3,703 and a corresponding overstatement of Account #502.03, Compensated Absence Expense, for 2008. Because the leave balance records were not accurate at year-end, the misstated amounts will have carried forward as the beginning balances for the Fair's 2009 leave records. The Fair will need to research what the leave balance amounts should have been in 2008 to ensure that records show the accurate amount of leave time due to employees, going forward. This will help alleviate any confusion as to the amount of time employees are actually due and aid the Fair in maintaining an appropriate balance in the compensated leave liability account.

Recommendations

1. *The Fair should establish the accurate number of hours each employee is due for paid leave, particularly CTO, vacation, and personal holiday hours. Once accurate figures are established, the Fair should ensure its leave balance records are appropriately adjusted to reflect the correct amounts.*
2. *Going forward, the Fair should ensure it is adjusting its leave balance records for all amounts reflected on the employee timecards. At year-end, the clerical accuracy of the records should be rechecked before an adjustment is made to Account #245, Compensated Leave Liability. This will help ensure that the liability sufficiently reflects the Fair's obligation for paid employee leave, yet does not overstate the amount.*

CASH ACCOUNTING

The Fair's operating cash was understated by $13,010 at year-end due to checks written in January 2009 being backdated into the 2008 accounting period. The Fair had appropriately established liabilities for amounts outstanding at year-end 2008, but subsequently cleared the amounts out by backdating checks written on January 12 and 13, 2009 to December 31, 2008. The checks were shown on the outstanding checklist for the year-end bank reconciliation. Since the checks were not written until January 2008, the items should still have been classified as outstanding payables at year-end, and no reduction to cash should have occurred. The practice of "backdating" cash instruments is a departure from generally accepted accounting principles (GAAP), since it does not provide an accurate report of cash and outstanding liabilities as of the year-end cut-off date.

Recommendation

3. *The Fair should ensure it is recording checks as of the date written and should refrain from the practice of backdating checks into a prior accounting period. Liabilities that are owed and have not been paid as of year-end should always be reflected in the Fair's financial records.*

NON-REPORTABLE CONDITIONS

JUNIOR LIVESTOCK AUCTION (JLA)

The Fair did not adequately reconcile Account #251, JLA Reserve, to the corresponding bank Account #117. According to the Accounting Procedures Manual (APM), Section 2, 5.1, the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal Account #251, JLA Reserve, at year-end. The account balance in the Fair's #117, Cash – JLA, plus Account #131.02, Accounts Receivable – JLA, totaled $2,471 less than the amount shown in the Account #251, JLA Reserve. During 2009, a transfer was made from the Fair's Operating Cash, Account #113, to the JLA Cash account to make the JLA Cash and Reserve accounts balance; however, there was a lack of adequate support for the amount transferred and no sufficient explanation or audit trail for the variance that existed at year-end 2008.

Recommendation

The Fair should comply with APM, Section 2, 5.1 and annually reconcile account #251, JLA Reserve, to the JLA Cash Account. Additionally, the Fair should have adequate support for any adjustments it makes or be able to explain variances that might exist in order to ensure that proper accountability is maintained for its JLA accounts.

DEFERRED INCOME

The Fair did not properly account for amounts related to Account #228, Deferred Income. The Fair recorded $1,372 into Account #481, Interim Revenue, for cash received in pre-payment of a January 2009 event. This amount should have been recorded as Deferred Income, since it had not been earned as of year-end 2008. Also, the Fair received a reimbursement from California Construction Authority for $1,206 in project expenditures that was recorded into the deferred income account rather than revenue Account #319, Project Reimbursement.

Recommendation

The Fair should ensure that its deferred income account reflects all amounts the Fair has received yet has not earned. Amounts that should be recognized as revenue for the year should not be part of the deferred income account balance.

ACCOUNTS RECEIVABLE

The Fair had an unrecorded interest receivable for $1,233 at year-end 2008. The Fair has a Certificate of Deposit for its Junior Livestock Auction (JLA CD) that matures annually on February 12. At that time, twelve months of interest is paid, and the Fair recognizes the full amount as revenue; however, approximately ten and a half months of interest paid on February 12 should have been accrued during the prior accounting period. As of December

31, 2008, the Fair's JLA CD had accrued $1,233 in interest to be paid to following February, which should have been reflected as a receivable at year-end. Furthermore, approximately ten-and-a-half-months worth of the interest revenue recorded on February 12, 2008 should have been recorded in 2007, with the remaining one-and-a-half months being recognized in 2008. The interest revenue recorded on February 12, 2008 was $2,227; however, $1,960 should have been accrued during 2007 and should have been reflected as prior year revenue at that time since it had not been previously recorded, with only $267 of the amount being recorded as 2008 revenue. As a result, interest revenue ultimately recognized for the JLA CD account during 2008 was overstated. Accrual basis of accounting and GAAP require that amounts are recognized in the period they are earned regardless of when the amounts are ultimately paid.

Recommendation

The Fair should ensure it is following GAAP and accruing the interest for its JLA CD in the accounting period it is earned rather than when it is paid.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

SUMMER FUN SINCE 1858
YUBA SUTTER FAIR

442 Franklin Avenue
Yuba City, CA 95991

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13th District Agricultural Association • email: info@ysfair.com • www.yubasutterfair.com

May 26, 2009

Ron Shackelford, Audit Chief
CDFA Audit Office
1220 N Street, Room 344
Sacramento, CA 95814

Dear Ron:

The 13th District Agricultural Association has reviewed the audit of the financial records and management reports conducted by the Audit Office. The management report covers the period of January 1, 2008 through December 31, 2008.

In compliance with the audit we are responding with written documentation that the following recommendations have been implemented:

REPORTABLES CONDITIONS:

Compensated Leave Liability
The Fair recognizes the clerical error made on the CTO calculation for the one employee and has corrected it accordingly.

The Fair was unaware that the Personal Holidays were accumulated on a fiscal year rather than a calendar year. The fair has noted this and will follow the correct procedure for the tracking of the personal holidays.

Cash Accounting
The Fair does not practice 'back dating' cash instruments. This was a clerical error due to not changing the default payment date. The Fair will take precaution at year end to ensure that the correct date is used.

NON-REPORTABLE CONDITIONS:

Junior Livestock Auction (JLA)
The Fair will comply with APM, Section 2, 5.1 and annually reconcile account #251, JLA Reserve to the JLA Cash Account. The Fair will be sure to keep adequate support for any adjustments it makes.

Deferred Income
The Fair has corrected the clerical error made on the one rental agreement for 2009 booked in 2008 revenue. The Fair will take the necessary precautions to make sure the revenue is recorded in the proper year.

The Fair went to CFSA for assistance on the STOP and was advised that the Journal Entry of $1206 for Project Expenditures was to be put into account #228. The Fair has noted the proper recording procedures for this type of reimbursement and will question any similar entry suggestions by CFSA.

Accounts Receivable

In reviewing prior years, the Fair has always booked the interest in full. Now that the Fair is aware of the proper procedure the Fair will ensure that it follows the procedures according to GAAP in accruing the interest for the JLA CD.

Sincerely,

Dick Sanchez, President

Sincerely,

Regina Goody, CEO

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 13th DAA – Yuba Sutter Fair, for their review and response. The DAA's response addressed the findings and stated the plans for implementing each recommendation. However, to provide clarity and perspective, we are including an additional comment to the Fair's response to our audit report section titled "Compensated Leave Liability."

The Fair stated that it recognizes the clerical error it made on the CTO calculation for one employee, when in fact four out of seven employee leave balance records showed clerical errors. The Fair states it has corrected the clerical error accordingly; however, as we have recommended, it is still necessary to research amounts on all employee records that showed discrepancies at year-end 2008, to ensure that all errors are corrected, the accurate amounts for leave for each employee are established, and the proper leave balances are carried forward for 2009.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between March 16, 2009 and March 27, 2009. My staff met with management on March 27, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford, CPA
For Chief, Audit Office

March 27, 2009

REPORT DISTRIBUTION

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1	President, 13th DAA Board of Directors
1	Chief Executive Officer, 13th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office